Questions and Answers about Health Insurance Agents and Brokers

What is the difference between agents, brokers and producers?

In most states, the legal name for a licensed insurance agent or broker is *producer*. Although it is the term most commonly used by state regulators, the terms *agent* and *broker* are more commonly used and understood both inside and outside the insurance industry. Keep in mind that anyone selling insurance must be licensed. The main difference in those marketing insurance products is in how they are paid and who pays them. Following are some examples.

Marketing representative – Most representatives typically work as direct employees for insurance companies. They may be salaried and may also receive bonuses based on the volume of their sales. Some marketing representatives work solely with brokers to assist them in their work with individual and business consumers. Others (less commonly) work directly with individuals or businesses depending on what type of health insurance it is. Marketing representative who work directly with consumers must be licensed – thus, they are technically also producers. Many marketing representatives who work solely with brokers are also licensed.

Agent – The term *agent* is no longer legally correct in most states and has been replaced by the term *producer*. However, it is still commonly used. Originally, it described a licensed individual who represented only one insurance company. Today, the words *agent* and *broker* are interchanged regularly, even though this is not technically correct. Agents are typically paid only commissions, although some who work for only one company (which is becoming less common) may have some sort of office expense allowance, administrative and service support in addition to commissions.

Broker – The term *broker* is no longer legally correct in most states and has been replaced by the term *producer*. As with *agent*, the term *broker* is still used on a daily basis and usually refers to someone who represents a number of different insurance companies. Most brokers are paid via commissions Some brokers may also work on a fee basis (paid by the consumer who hires them) if they primarily deal with large employer plans.

General Agent – The general agent (the broker's agent) may represent one or more insurance companies and assists them in managing brokers and providing marketing and sales functions for the insurance companies. This includes training, commission payment, application processing and service issues with enrollment, billing or claim payments. Some general agents are also producing agent/brokers in their own right. They are paid via a combination of commissions/overrides and fees based on the services they perform.

Consultants – Consultants often work with larger employers and are paid primarily via fees. They may perform much of the same work performed by a broker, or they may be hired to perform specific types of analyses. Consultants often work in large organizations loosely called "houses." Examples would include organizations like Mercer, Aon, Marsh, etc. Fee agreements are negotiated between the Consultant and Employer.

Agencies – It is becoming more and more common for brokers to work in agencies with other brokers. Sometimes these agencies are independent and fairly small, but there are also many large nationwide brokerage agencies as well as large local independent agencies that employ a number of brokers. Each broker may operate independently with his or her own clients while still a part of the agency, or different brokers within the agency may have different practice areas. For example, one broker may do small group insurance, while another may be a senior products specialist, and another may do life insurance, etc. Some brokerage agencies divide duties based on whether the client is a new client or an existing client, and whether the needed work is service work, a renewal of existing business or some other client need. Working in an agency provides for some efficiencies and the ability to handle more clients, which is why it has become much more common. Brokers who work in large agencies may be paid like any other broker, working either on commission or fees, or they may be paid a salary by the agency itself.

Why do insurance companies use brokers?

Insurance companies use brokers for several reasons. First, using a broker for marketing products is usually much more cost-effective because the broker is only paid if a sale is made. There is no cost for office space, employee benefits or other employee expense, which makes it possible for a company to greatly expand marketing efforts by using more brokers than would be affordable if every marketing agent were an employee. Second, consumers often prefer to work with brokers because good professional brokers can present many products from which to choose. Unlike company employees who are biased in favor of their employers, brokers can operate in an unbiased manner. Furthermore, because their careers are based on building a large block of clients, brokers have a strong incentive to provide assistance with problems that occur after the sale. Many brokers actually have employees just for this purpose, and, particularly for small employers, may handle most of the insurance tasks that might otherwise be handled by the employer.

What type of broker is best?

The best broker is the one who works best with a particular consumer. A large agency is not necessarily better than a smaller one, and may not necessarily provide more services than a broker who works on his or her own. All licensed producers are required to complete continuing education every year (except in Arizona) in order to retain their license. The best producers belong to a professional association to help them stay abreast of compliance issues and the latest industry developments. Professional associations also provide ongoing education and ethics training. Some people prefer to work with one broker who will handle all of their insurance needs, and others prefer different brokers for their different needs – for example, one broker for their auto and home insurance and one for their health insurance needs. This is really the consumer's choice and it should be emphasized that even when brokers are paid commissions, they work for their client. The reason for this is that consumers may change their designated brokers for health insurance at any time. A broker who does not provide the service desired by his or her client will not keep them, and the high level of service most provide is the reason why the vast majority of health insurance, as well as other lines of insurance coverage in the United States, is sold through licensed producers.